CT/21/64
Cabinet
14 July 2021

TREASURY MANAGEMENT STEWARDSHIP ANNUAL REPORT 2020/21

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Cabinet be asked to endorse the report.

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1. Summary

1.1. The County Council has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. A revised Code of Practice was published by CIPFA in December 2017 and a revised Policy Statement and Treasury Management Practices (TMPs) were agreed by Council in February 2018. These were not changed for 2020/21. The Treasury Management and Investment Strategy for 2020/21 was agreed by Council in February 2020 and forms part of the published budget book.

1.2. The purpose of this report is to show the outturn position, review performance and inform members of any key matters arising from the Council's Treasury and Debt Management activities during the 2020/21 financial year.

2. Minimum Revenue Position

2.1 Each year the Council has a statutory obligation to charge to the revenue account an annual amount of Minimum Revenue Provision (MRP), which is a charge to make provision for the repayment of the authority's external debt and internal borrowing. The charge is based on the historic borrowing required to fund the Council's capital programme.

2.2 The current policy is to charge MRP based on the period of benefit of the capital investment, i.e. straight line, over the life of the asset. However, all supported borrowing up to 1st April 2008 is charged over the life of the assets, calculated using the annuity method. The final outturn for MRP for 2020/21 was £14.257m.
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3. Treasury Management Outturn Position 2020/21 - Borrowing

3.1. The overall aims of the borrowing strategy are to achieve:

- Borrowing at the lowest rates possible in the most appropriate periods;
- The minimum borrowing costs and expenses;
- A reduction in the average interest rate of the debt portfolio.

3.2. Since 2009 the Council has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. Therefore, the Medium Term Financial Strategy (MTFS) assumption was that no new long-term borrowing would be required.

3.3. In accordance with the MTFS, no long-term borrowing was undertaken during the 2020/21 financial year. Instead all borrowing required to fund capital expenditure was met from internal cash balances.

3.4. Active treasury management and the maintenance of levels of liquidity have ensured that no short-term borrowing was required during the financial year. Cash positions are monitored daily and modelled over a monthly horizon to ensure that anticipated liquidity levels are forecast accurately.

3.5. No opportunities arose during the 2020/21 financial year to repay outstanding debt without incurring substantial premium penalties, which would negate any benefit of repaying the debt. The Public Works Loan Board (PWLB) sets premature repayment rates, and where the interest rate payable on a current loan is higher than the repayment rate, the PWLB policy imposes premium penalties for early repayment. Therefore, it will only make financial sense to repay debt early if the PWLB changes its current policy, or if interest rates rise and cancel out the repayment premiums. Given the current circumstances, it is extremely unlikely that gilt yields will rise sufficiently to cancel out the premiums in the medium term.

3.6. At 31st March 2021 the level of long term debt stood unchanged at £507.85m as detailed in the table below.

Analysis of Long Term Debt

	Actual 31.03.20 £'m	Interest Rate %	Actual 31.03.21 £'m	Interest Rate %
Fixed Rate Debt				
PWLB	436.35	4.99	436.35	4.99
Money Market	71.50	5.83	71.50	5.83
Variable Debt				
PWLB	0.00		0.00	
Money Market	0.00		0.00	
Total External	**507.85**	**5.11**	**507.85**	**5.11**

3.7. The carrying amount for long term debt figure that will be presented in the Statement of Accounts for 2020/21, comprising PWLB, LOBO and market debt, is £511.009m, just over £3m higher than the figure stated above. This difference is due to an accounting standard adjustment which requires us to record the value of our long term debt at its Net Present Value in the Statement of Accounts. The LOBOs (Lender Option Borrower Option) have stepped interest rates and are revalued annually based on the effective interest rate for the duration of the loan. The revaluation has the effect of smoothing the stepping of the interest over the life of the loans.

4. Treasury Management Outturn Position 2020/21 - Investments

4.1. The overall aim of the Council's investment strategy is to:

- Limit the risk to the loss of capital;
- Ensure that funds are always available to meet cash flow requirements;
- Maximise investment returns, consistent with the first two aims;
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

4.2. The Bank of England's Base Rate remained at 0.10% throughout the year following the reduction in rates in response to the pandemic. The average interest rate earned on investments, excluding the CCLA property fund, for the year was 0.65%, against the full year budget target return of 0.75%. The CCLA property fund has yielded an average rate of 4.02% for the same period against a full year budget target of 4.5%. The combined total return from all investments was 0.81%. When the Council set a target interest rate of 0.75% for 2020/21, it did so bearing in mind the risk of interest rates being cut as a result of a messy Brexit, but the impact of the pandemic has meant that rates have been cut further than would have been expected when the target rate was set.

4.3. The 2020/21 Treasury Management Strategy included the ability for the Council to invest in short-dated bond funds and multi-asset income funds. Short dated bond funds will invest in high quality short dated government or corporate bonds. Multi-asset income funds will invest in a wider range of investments designed to produce an income yield. In both cases, the funds concerned will invest in tradable instruments where the capital value of the investment will fluctuate. However, this provision was not utilised, as the current economic uncertainty suggested a more prudent approach, given that higher yielding investments will mean that there is an increased risk of loss of capital.

4.4. Revenue lending during 2020/21, including the use of term deposits, call accounts and property funds, earned interest of £1.78 million against a full year budget of £1.55 million. The surplus achieved over budget can be attributed to the higher levels of cash held than anticipated. This can partly be explained by the level of financial support provided by the Government for the COVID pandemic which was mostly received in advance of expenditure being incurred. The interest figure quoted is the return from the Council's Treasury Management activity and is different from the figure presented in the Outturn Report and the Statement of Accounts which also includes interest generated from a number of other sources.

4.5. All lending has been carried out in accordance with the Council's Treasury Management Strategy and with institutions on the list of approved counterparties.

4.6. The following table shows the County Council's fixed and variable rate investments as at the start and close of the financial year:

Schedule of Investments

		Actual 31.03.20	Interest Rate	Actual 31.03.21	Interest Rate
	Maturing in:	**£'m**	**%**	**£'m**	**%**
Bank, Building Society & MMF Deposits					
Fixed Rates					
Term Deposits	< 365 days	72.50	1.00	80.00	0.86
	365 days & >	20.00	1.40	18.00	1.13
Callable					
Variable Rate					
Call Accounts		45.00	0.65	0.00	0.00
Notice Accounts		45.00	0.90	70.00	0.16
Money Market Funds (MMF's)		23.01	0.48	20.40	0.03
Property Fund		10.00	4.28	10.00	4.28
All Investments		**215.51**	**1.04**	**198.40**	**0.72**

4.7. The figure as at 31st March 2020 included £6.9m related to the Growing Places Fund (GPF). Devon County Council was the local accountable body for the GPF, established by the Department for Communities and Local Government to enable the development of local funds to address infrastructure constraints, promoting economic growth and the delivery of jobs and houses.. However, responsibility for the Growing Places Fund, together with the current balance of the fund, was transferred during the year to Somerset, to be consistent with their role as host authority for the Local Enterprise Partnership.

5. Prudential Indicators

5.1. Linked to its Treasury Management Strategy, the County Council is required to monitor its overall level of debt in line with the CIPFA Code of Practice. Part of the code requires consideration of a set of Prudential Indicators in order to allow the Council to form a judgement about the affordable, prudent and sustainable level of debt.

5.2. The purpose of the indicators is to demonstrate that:

- Capital expenditure plans are affordable;
- All external borrowing and other long term liabilities are within prudent and sustainable levels;
- Treasury management decisions are taken in accordance with professional good practice.

5.3. Three Prudential Indicators control the overall level of borrowing. They are:

- **The authorised limit** - this represents the limit beyond which any additional borrowing is prohibited until the limit is revised by the County Council. Revision may occur during the year if there are substantial and unforeseen changes in circumstances, for example, a significant delay in achieving forecast capital receipts. In normal circumstances this limit will not require revision until the estimate for the following year is revised as part of the budget setting process.
- **The operational boundary** – this indicator is based on the probable external debt and other long term liabilities during the year. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable.
- **The upper limit for net debt** - the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement.

5.4. During the Budget process, the following Borrowing Limits were set for 2020/21:

- Maximum borrowing during the period (Authorised Limit) £780.972m.
- Expected maximum borrowing during the year (Operational Limit) £755.972m.
- Maximum amount of fixed interest exposure (as a percentage of total) 100%.
- Maximum amount of variable interest exposure (as a percentage of total) 30%.

5.5. Members are asked to note that during 2020/21 the Council remained within its set Borrowing Limits and complied with the interest rate exposure limits.

6. 2021/22 Update

6.1. As set out in the 2021/22 Treasury Management Strategy, the impact of COVID 19 makes it very difficult to predict what the financial requirements of the Council will be over the next few years and the resources that will be available to it to meet those requirements.

6.2. The Medium Term Financial Strategy (MTFS) continues to assume that, over the three year period, no new long-term borrowing will be required, but this will be kept under review. If key priorities cannot be delivered due to a reduced availability of external funding, the Authority's cash resources, or capital receipts, then external borrowing may be required. This will need to be balanced against the ability to support additional capital financing costs from within the revenue budget.

6.3. The Bank of England has kept base rates at 0.1% since March 2020 so new deposits made during the year have been on much lower interest rates than previously obtained. The interest rate target for 2021/22 has been set at 0.3% and assumes that the current Bank of England base rate remains unchanged. It is still envisaged that this target rate can be achieved. The yield from investment in the CCLA Property Fund is assumed to be 3.8%. This assumes potential reductions in yield as a result of the pandemic.

6.4. The provision in the strategy to invest in short-dated bond funds and multi-asset income funds has yet to be utilised. Any decision to invest in such funds would be subject to agreement by the Cabinet Member for Resource Management and a competitive process to identify suitable funds. Given the current low rates of interest available from banks, building societies and other local authorities, the potential to invest in these funds and secure a higher level of income is something that will be reviewed later in the year.

7. Summary

7.1. No long term or short-term borrowing was undertaken during 2020/21. It is not envisaged that any new long-term borrowing will be required over the next three year period but this will be kept under review in relation to the Council's capital priorities.

7.2. No opportunities arose during the 2020/21 financial year to repay outstanding debt without incurring substantial premium penalties, which would negate the benefit of repaying the debt.

7.3. Investment income of £1.78 million was achieved in 2020/21 against a full year budget of £1.55 million. This represented a return of 0.81%, including the Property Fund investment. Successful prudent management of the Council's short-term cash reserves has delivered a surplus of £230,000 for the 2020/21 financial year.

Mary Davis
County Treasurer

Electoral Divisions: All

Local Government Act 1972:
List of Background Papers: Nil
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